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TAGS: EAID ECON EFIN EPET PREL SU
SUBJECT: SUDAN: LOW PRICE FOR PETROLEUM CAUSING BUDGET PROBLEMS

Classified By: POL/ECON Chief T. Monroe for reasons 1.4 (b) and (d)

¶1. (C) Summary: The Ministry of Energy and Mining has provided information on why a large part of Sudanese oil production is being sold at a price of less than USD 25 per barrel while the benchmark crude price is over USD 60 per barrel. Difficulties in refining Sudanese oil limits the price that can be earned. Sanctions deny Sudan access to American refineries that could extract a greater yield from Sudanese crude. Plans are progressing to build a new refinery on the Red Sea coast. The low price for oil is contributing to a serious budget shortfall for both the Government of National Unity (GNU) and the Government of Southern Sudan (GOSS). End Summary.

New Production is Heavy and High Acid

¶2. (C) In a meeting on April 17, the Deputy Secretary General in the Ministry of Energy and Mining provided some additional information on the reasons a large part of Sudanese oil production is being sold at a relatively low price. He said the oil is currently being sold at a price of around USD 23 per barrel because of the difficulty in handling and refining it. The production, known as Dar blend, comes from wells operated by the Petrodar consortium in blocks 3 and 7 in Southern Sudan. It is a heavy, high acid crude and turns solid at temperatures below 42 degrees centigrade. He said the technical staff described the oil as having a high Total Acid Number or "TAN", and a low sulfur content. The high acid content causes metallurgy problems at refineries. There are a limited number of refineries willing and able to take this petroleum. The characteristics of the oil also present challenges in pumping it through the pipeline from Southern Sudan to the coast and in loading at the port. Major production of the Dar blend began in late ¶2006.

¶3. (C) The Deputy Secretary General stated that the Petrodar production now goes to a Chinese refinery, and he described this refinery as having a "monopoly" but did not elaborate. Poloff asked why the heavy oil cannot be sold to other refineries, in Europe for example. The Deputy Secretary General replied it cannot be sent to European refineries because it needs to be heated, and European refineries do not have heating coils in pipelines to handle the Sudanese crude. He further stated that in order to extract the maximum yield of refined products, such as gasoline, from this oil, it must be processed at a refinery with capacity for thermal or catalytic cracking. He claimed North American refineries

have the thermal and catalytic cracking capacity to handle the Dar blend, and cited the production from Chad which has similar specifications and is refined in the U.S. However, U.S. sanctions prevent the export of Sudan's crude to the U.S. He estimated that the Dar blend could be sold for USD 20 to 25 more per barrel if it could be sold to a refinery able to better refine it.

The Impact on the Budget is Huge

¶4. (C) The production from the Petrodar wells is a major part of Sudan's oil production, about 200,000 barrels per day out of a total production of about 350,000 bpd. The low price is having an impact on the budgets of both the Government of National Unity (GNU) and the Government of Southern Sudan (GOSS). The impact is especially severe on the GOSS which depends on oil for more than 90 percent of its revenue. On April 20, the Acting Finance Minister for the GOSS stated publicly that revenues for 2007 may be 33 percent under the approved budget. He elaborated that the critical financial situation would force the GOSS to borrow. The head of the World Bank office in Southern Sudan, Surendra Agarwal, was quoted in the press as saying that the GOSS should be "cautious about how they take on debts, and the conditions on those debts." The Juba Post newspaper reported that the GOSS is considering borrowing up to USD 550 million.

¶5. (C) Comment: Production of Dar blend is currently running at about 200,000 barrels per day, all of which is exported. Under the production sharing agreement, 60 percent (120,000 bpd) of this production is government oil. Revenue from the sale of government oil from Southern Sudan is split equally between the GNU and the GOSS. Assuming that the Deputy Se cretary General's claim that USD 20 per barrel is being lost due to lack of access to refineries with cracking facilities, the annual government revenue foregone would be

in the range of USD 700 million to USD 800 million. End comment.

New Refinery to Be Built

6.(C) Given the problems of finding a foreign refinery for the oil from the Petrodar concession, the Sudanese government has decided to construct its own refinery. Ministry of Energy and Mines officials say the plan is to build a new refinery which will be located on the Red Sea coast. The refinery reportedly is being designed by an Italian firm and will utilize French and German components. The Deputy Se cretary General elaborated on the metallurgical problems and claimed that some parts of the new refinery will have to be "platinum plated" to withstand the high acid content of the oil. The estimated completion date is 2011.

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